

**LUCAS COUNTY**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2012**

## TABLE OF CONTENTS

	Page
OFFICIALS	3
INDEPENDENT AUDITOR’S REPORT	4-5
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)	6-13
BASIC FINANCIAL STATEMENTS:	
Exhibit	
Government-Wide Financial Statements:	
A    Statement of Net Assets	16-17
B    Statement of Activities	18
Governmental Fund Financial Statements:	
C    Balance Sheet	20-23
D    Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	24
E    Statement of Revenues, Expenditures and Changes in Fund Balances	26-27
F    Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	28
Proprietary Fund Financial Statements:	
G    Statement of Net Assets	29
H    Statement of Revenues, Expenses, and Changes in Net Assets	30
I    Statement of Cash Flows	31
Fiduciary Fund Financial Statements:	
J    Statement of Fiduciary Assets and Liabilities – Agency Funds	32
Notes to Financial Statements	33-48
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds	50
Budget to GAAP Reconciliation	51
Notes to Required Supplementary Information – Budgetary Reporting	52
Schedule of Funding Progress for the Retiree Health Plan	53
SUPPLEMENTARY INFORMATION:	
Schedule	
Nonmajor Governmental Funds:	
1    Combining Balance Sheet	56-57
2    Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	58-59
Agency Funds:	
3    Combining Schedule of Fiduciary Assets and Liabilities	60-63
4    Combining Schedule of Changes in Fiduciary Assets and Liabilities	64-67
5    Schedule of Revenues by Source and Expenditures by Function – All Governmental Funds	68-69
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	70-71
SCHEDULE OF FINDINGS	72-76

## LUCAS COUNTY

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dan Kozak	Board of Supervisors	Jan. 2013
Dennis Smith	Board of Supervisors	Jan. 2013
Larry Davis	Board of Supervisors	Jan. 2015
Julie Masters	County Auditor	Jan. 2013
Phyllis Baker	County Treasurer	Jan. 2015
Laurie Hunter	County Recorder	Jan. 2015
Jim Baker	County Sheriff	Jan. 2013
Paul Goldsmith	County Attorney	Jan. 2015
Tim McGee	County Assessor	Jan. 2016

## INDEPENDENT AUDITOR'S REPORT

To the Officials of Lucas County:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lucas County, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Lucas County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lucas County at June 30, 2012 and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 19, 2013 on our consideration of Lucas County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 6 through 13 and 50 through 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lucas County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of County management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Oskaloosa, Iowa  
March 19, 2013

---

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

Lucas County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

### **2012 FINANCIAL HIGHLIGHTS**

- The County's Governmental fund revenues decreased \$121,579 from fiscal year 2011 to 2012. Property and other county tax increased \$138,436, intergovernmental revenues decreased \$321,181 and other revenues increased by \$68,166.
- The County's Governmental fund expenditures increased \$1,021,823 from fiscal 2011 to fiscal 2012. Public Safety and Legal Services decreased \$163,381, Physical Health and Social Services increased \$143,801, Mental Health increased \$245,464, County environment and education decreased \$2,164, Roads and Transportation increased \$570,726, Governmental Services to residents increased \$17,686, and Administration decreased \$13,956. Debt Service increased \$211,486 and Capital Projects increased \$12,161.
- The County's Governmental Activities net assets decreased \$958,118 from June 30, 2011 to June 30, 2012.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the County's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Lucas County as a whole and present an overall view of the County's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Lucas County's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Lucas County acts solely as an agent or custodian for the benefit of those outside of County government (Agency Funds).

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year.

Supplementary Information provides detailed information about the non-major Governmental and the individual Agency Funds.

## **REPORTING THE COUNTY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statements*

One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the County's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the County's net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The Statement of Activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The County's governmental activities are presented in the Statement of Net Assets and the Statement of Activities. Governmental activities include public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, interest on long-term debt and non-program activities. Property tax and state and federal grants finance most of these activities.

### *Fund Financial Statements*

The County has three kinds of funds:

1) Governmental funds account for most of the County's basic services. These focus on how money flows into and out of those funds, and the balances left at year-end that is available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Mental Health, Rural Services and Secondary Roads, 3) the Debt Service Fund, and 4) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2) Proprietary funds account for the County's employee group health insurance plan, which is an Internal Service Fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the County functions.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows.

3) Fiduciary funds are used to report assets held in a trust or agency capacity for others, which cannot be used to support the County's, own programs. These fiduciary funds include Agency Funds that account for Auto license and use tax, emergency management services and the County Assessor, to name a few.

The required financial statements for fiduciary funds include a statement of fiduciary assets and liabilities.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for governmental activities.

Net Assets of Governmental Activities		
	June 30	
	2011	2012
Current and other assets	\$8,697,451	6,449,553
Capital assets	<u>9,836,781</u>	<u>11,565,309</u>
Total Assets	<u>18,534,232</u>	<u>18,014,862</u>
Long-Term liabilities	1,673,933	1,568,319
Other Liabilities	<u>3,605,989</u>	<u>4,150,351</u>
Total liabilities	<u>5,279,922</u>	<u>5,718,670</u>
Net Assets:		
Invested in capital assets, net of related debt	9,925,720	10,286,089

Restricted	2,643,325	1,917,265
Unrestricted	<u>685,265</u>	<u>92,838</u>
Total net assets	<u>13,254,310</u>	<u>12,296,192</u>

Net assets of Lucas County's governmental activities decreased by approximately 7% (\$13.25 million compared to \$12.3 million). The largest portion of the County's net assets is the invested in capital assets net of related debt (e.g., land, infrastructure, buildings and equipment). Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements—are reported at \$92,838 at June 30, 2012.

---

#### Changes in Net Assets of Governmental Activities

---

	Year Ended June 30	
	2011	2012
Revenues:		
Program Revenues:		
Charges for service	\$ 458,554	499,765
Operating grants, contributions & restricted interest	2,812,145	2,604,846
Capital grants, contributions, and restricted interest	1,182,416	0
General Revenues :		
Property tax	3,106,478	3,198,321
Penalty and interest on property tax	44,968	20,951
State Tax Credits	153,477	151,410
Local Option Sales and Services Tax	310,209	348,593
Payments in lieu of taxes	8,806	4,469
Unrestricted investment earnings	23,194	15,301
Other general revenues	<u>6,568</u>	<u>6,749</u>
Total Revenues	<u>8,106,815</u>	<u>6,850,405</u>

Program Expenses:

Public Safety and Legal Services	1,010,597	954,965
Physical health and social services	589,742	735,671
Mental Health	988,874	1,236,061
County environment and education	212,780	246,434
Roads and transportation	2,986,277	3,409,761
Government services to residents	270,525	278,806
Administration	826,679	881,914
Interest on long term debt	<u>6,694</u>	<u>64,911</u>
Total Expenses	<u>6,892,168</u>	<u>7,808,523</u>
Change in Net Assets	1,214,647	(958,118)
Net assets beginning of year	<u>12,309,663</u>	<u>13,254,310</u>
Net assets end of year	<u>13,254,310</u>	<u>12,296,192</u>

The County increased rural levy rates in FY2012 by \$.64572 per \$1000.00 valuation. This increase was necessary to generate the money needed to maintain county services. Property tax revenue increased from 2011 by \$91,843.

#### INDIVIDUAL MAJOR FUND ANALYSIS

As Lucas County completed the year, its governmental funds reported a combined fund balance of \$2,001,587, which is down \$1,259,398 from a year ago. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- General Fund revenues decreased \$3,747 over the prior year. Property tax, interest and penalties, License and permits, and charges for services increased \$47,998 while intergovernmental revenues, use of money and property, and misc revenues decreased \$51,745. General fund expenditures increased \$190,661. Operating expenditures for Public Safety and Legal Services, Physical Health and Social Services, County Environment and Education, Government Services to Residents and Capital Projects increased by \$211,135 while Administration costs decreased \$20,474.
- Mental Health Fund revenues decreased \$70,416 from the prior year. Property tax revenues and charges for service decreased \$90,646. Intergovernmental and misc. revenues increased \$20,230 due to more state funding. The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled \$1,233,772, an increase of \$245,464 from the prior year due mainly to the rising cost of services to clients and an increase in the number of clients served. The Mental Health fund balance at the end of the year decreased \$501,369 from the prior year.

- The Rural Services Fund showed an increase in revenue of \$142,306. While property and other county taxes, intergovernmental revenues and service and, miscellaneous revenues were up \$142,372 charges for service decreased by \$66. Expenditures increased \$20,697. Increases in Physical Health and Social Services, County Environment and Education, Roads and Transportation, Government Services to Residents and Administration costs were \$22,720 and a decrease in Public Safety and Legal services of \$2,023. The Rural Services Fund balance increased by \$52,833 from the prior year.
- Secondary Roads Fund revenues decreased by \$237,243 for the year. A decrease of \$280,699 in intergovernmental revenue received was offset slightly by an increase in licenses and permits and misc. revenues of \$43,456. Expenditures in Roads and transportation increased by \$559,901 and Capital projects expenditures decreased by \$10,865. The ending fund balance showed an decrease of \$583,646 from last year.

## **BUDGETARY HIGHLIGHTS**

During the course of the year, Lucas County amended the budget two (2) times. The first amendment was in January of 2012 and was necessary to adjust revenue receipts for additional Local Option tax revenue received not included in the original budget. Disbursements were increased to cover costs associated with the new Law Enforcement Center Construction, contributions to C.V.P & D, pioneer cemetery. extra expenditures for bridges, culverts and Pavement repairs from 2011 weather and new equipment, election expenses, courthouse repairs and mileage. The second amendment was in May, 2012 was to amend revenues and expenditures associated with proceeds from loan to repair air conditioner in courthouse, purchase new transport vehicle for Sheriff and purchase new computer system for Public Health. Disbursements did not exceed the amount budgeted in any County function.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

	Balance	
	June 30, 2011	June 30, 2012
Governmental activities		
Capital assets not being depreciated:		
Land	\$ 859,093	\$859,093
Construction in progress	158,229	0
Total capital assets not being depreciated	<u>1,017,322</u>	<u>859,093</u>
Capital assets being depreciated:		
Buildings	\$676,414	2,622,174
Machinery and equipment	3,972,570	4,062,970
Infrastructure	<u>8,173,797</u>	<u>8,713,797</u>
Total capital assets being depreciated	<u>13,362,781</u>	<u>15,398,941</u>

Less accumulated depreciation for:		
Buildings	222,122	277,409
Machinery and equipment	2,363,334	2,201,793
Infrastructure	<u>1,957,886</u>	<u>2,213,523</u>
Total accumulated depreciation	<u>4,543,322</u>	<u>4,692,725</u>
 Total capital assets being depreciated, net	 <u>8,819,459</u>	 <u>10,706,216</u>
 Governmental activities capital assets, net	 <u>9,836,781</u>	 <u>11,565,309</u>

At June 30, 2012, Lucas County had approximately \$11.56 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges.

The County had depreciation expense of \$640,917 in FY 2012 and total accumulated depreciation of \$4,692,725 at June 30, 2012. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

### **Long-Term Liabilities**

At June 30, 2012 Lucas County had \$169,499 in compensated absences as compared to \$178,524 on June 30, 2011, and a decrease of \$37,000 in General Obligation Notes. During FY2009 the County issued \$185,000 of general obligation notes to pay the cost of equipment for the County computer system. The note is payable through the year ending June 30, 2013. At June 30, 2012 the County had bank loan indebtedness in the amount of \$1,221,820 payable through the year ending June 30, 2019 for the Law Enforcement Center Project. During the year ended June 30, 2012 the County issued \$100,000 in general obligation county purpose bonds payable through the year ending June 30, 2014 to be used for the purchase of a transport vehicle for the Sheriff, purchase and installation of a computer system at the Lucas County Public Health, and repairs to the County courthouse. More detailed information about the County's long-term liabilities is presented in Note 7 to the financial statements.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Lucas County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2013 budget, tax rates, and the fees that will be charged for various County activities. In an ongoing effort to maintain County services with the least possible increase to tax levies, the Lucas County Board of Supervisors is committed to limiting expenditure increases, using excess fund balances, and reducing funding to non-mandated programs to provide essential services for the citizens of Lucas County.

Budgeted disbursements in the FY 2013 operating budget are \$8,919,682 a decrease of just over 7% from the final FY 2012 budget. Lucas County has spent down fund balances to finance programs currently offered due to the effect inflation has on program costs. Costs related to Mental Health, Roads and Transportation, Government Services to Residents, Capital Projects and Debt Service increased while Public Safety and Legal Services, Physical Health and Social Services, County Environment and Education and Administration decreased to make a \$709,610 decrease overall. All Lucas County elected officials and employees received a 3.5% wage increase for FY 2012. Lucas County added no major programs to the FY 2012 budget.

## **CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Lucas County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Lucas Auditor's Office, 916 Braden Avenue, Chariton, Iowa.

This page intentionally left blank

## Basic Financial Statements

LUCAS COUNTY  
STATEMENT OF NET ASSETS  
June 30, 2012

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and pooled investments	\$ 2,595,403
Receivables:	
Property tax:	
Delinquent	12,476
Succeeding year	3,406,000
Interest and penalty on property tax	54,397
Accounts	5,031
Accrued interest	392
Due from other governments	237,157
Contract receivable (note 4)	4,566
Inventories	134,131
Capital assets, net of accumulated depreciation (note 5)	<u>11,565,309</u>
<b>Total assets</b>	<u>18,014,862</u>
<b>Liabilities</b>	
Accounts payable	95,147
Salaries and benefits payable	32,892
Due to other governments (note 6)	591,418
Accrued interest payable	24,894
Deferred revenue:	
Succeeding year property tax	3,406,000
Long-term liabilities (note 7):	
Portion due or payable within one year:	
General obligation notes	37,000
General obligation bonds	49,260
Bank loan payable	155,083
Compensated absences	169,499
Portion due or payable after one year:	
General obligation bonds	50,740
Bank loan payable	1,066,737
Net OPEB liability	<u>40,000</u>
<b>Total liabilities</b>	<u>5,718,670</u>

LUCAS COUNTY  
STATEMENT OF NET ASSETS  
June 30, 2012

	<u>Governmental Activities</u>
Net Assets	
Invested in capital assets, net of related debt	\$ 10,286,089
Restricted for:	
Supplemental levy purposes	84,092
Cemetery levy purposes	3,282
Rural services purposes	39,587
Secondary roads purposes	1,542,801
Conservation purposes	71,009
Prisoner room and board purposes	10,221
Debt service	4,541
Capital projects	34,674
Other purposes	127,058
Unrestricted	<u>92,838</u>
Total net assets	<u>\$ 12,296,192</u>

See notes to financial statements.

LUCAS COUNTY  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Assets
Governmental Activities:				
Public safety and legal services	\$ 954,965	\$ 134,484	\$ 41,478	\$ (779,003)
Physical health and social services	735,671	4,385	196,941	(534,345)
Mental health	1,236,061	16,165	366,953	(852,943)
County environment and education	246,434	14,711	40,582	(191,141)
Roads and transportation	3,409,761	150,442	1,954,092	(1,305,227)
Government services to residents	278,806	154,058	-	(124,748)
Administration	881,914	25,520	4,800	(851,594)
Interest on long-term debt	64,911	-	-	(64,911)
Total	<u>\$ 7,808,523</u>	<u>\$ 499,765</u>	<u>\$ 2,604,846</u>	<u>(4,703,912)</u>
General Revenues:				
Property and other county tax levied for:				
General purposes				3,157,876
Debt service				40,445
Penalty and interest on property tax				20,951
State tax credits				151,410
Payments in lieu of taxes				4,469
Local option sales and services tax				348,593
Unrestricted investment earnings				15,301
Miscellaneous				6,749
Total general revenues				<u>3,745,794</u>
Change in net assets				(958,118)
Net assets beginning of year				<u>13,254,310</u>
Net assets end of year				\$ 12,296,192

See notes to financial statements.

This page intentionally left blank

LUCAS COUNTY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2012

		Special Revenue		
	General	Mental Health	Rural Services	Secondary Roads
Assets				
Cash and pooled investments	\$ 537,558	\$ 147,450	\$ 61,560	\$ 1,421,550
Receivables:				
Property tax:				
Delinquent	10,077	1,762	422	-
Succeeding year	1,939,000	420,000	959,000	-
Interest and penalty on property tax	54,397	-	-	-
Accounts	3,852	731	-	125
Accrued interest	391	-	-	-
Due from other governments	39,654	8,603	-	132,448
Contract receivable (note 4)	-	-	-	4,566
Inventories	-	-	-	134,131
Total assets	\$ <u>2,584,929</u>	\$ <u>578,546</u>	\$ <u>1,020,982</u>	\$ <u>1,692,820</u>

<u>Nonmajor</u>	<u>Total</u>
\$ 176,215	\$ 2,344,333
215	12,476
88,000	3,406,000
-	54,397
323	5,031
1	392
56,452	237,157
-	4,566
-	134,131
<u>\$ 321,206</u>	<u>\$ 6,198,483</u>

LUCAS COUNTY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2012

		Special Revenue		
	General	Mental Health	Rural Services	Secondary Roads
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 27,940	\$ 27,223	\$ 514	\$ 39,470
Salaries and benefits payable	15,092	1,510	3,013	13,277
Due to other governments (note 6)	75,092	516,326	-	-
Deferred revenue:				
Succeeding year property tax	1,939,000	420,000	959,000	-
Other	64,474	1,762	422	4,566
Total liabilities	<u>2,121,598</u>	<u>966,821</u>	<u>962,949</u>	<u>57,313</u>
Fund balances:				
Nonspendable:				
Inventories	-	-	-	134,131
Restricted for:				
Supplemental levy purposes	114,209	-	16,791	-
Cemetery levy purposes	3,282	-	-	-
Rural services purposes	-	-	41,242	-
Secondary roads purposes	-	-	-	1,501,376
Prisoner room and board purposes	10,221	-	-	-
Conservation purposes	28,970	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Other purposes	-	-	-	-
Unassigned	306,649	(388,275)	-	-
Total fund balances	<u>463,331</u>	<u>(388,275)</u>	<u>58,033</u>	<u>1,635,507</u>
Total liabilities and fund balances	<u>\$ 2,584,929</u>	<u>\$ 578,546</u>	<u>\$ 1,020,982</u>	<u>\$ 1,692,820</u>

See notes to financial statements.

<u>Nonmajor</u>	<u>Total</u>
\$ -	\$ 95,147
-	32,892
-	591,418
88,000	3,406,000
215	71,439
<u>88,215</u>	<u>4,196,896</u>
-	134,131
-	131,000
-	3,282
-	41,242
-	1,501,376
-	10,221
42,039	71,009
4,972	4,972
34,674	34,674
151,306	151,306
-	(81,626)
<u>232,991</u>	<u>2,001,587</u>
<u>\$ 321,206</u>	<u>\$ 6,198,483</u>

## LUCAS COUNTY

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
June 30, 2012

Total fund balances of governmental funds	\$ 2,001,587
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. The cost of assets is \$16,258,034 and the accumulated depreciation is \$4,692,725.	11,565,309
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	71,439
The Internal Service Fund is used by management to charge the costs of the partial self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.	251,070
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(24,894)
Long-term liabilities, including notes and bonds payable, loans payable, compensated absences payable, and net OPEB liability, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(1,568,319)</u>
Net assets of governmental activities	<u>\$ 12,296,192</u>
See notes to financial statements.	

This page intentionally left blank

LUCAS COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2012

		Special Revenue		
	General	Mental Health	Rural Services	Secondary Roads
Revenues:				
Property and other County tax	\$ 1,901,926	\$ 332,628	\$ 931,570	\$ -
Interest and penalty on property tax	37,603	-	-	-
Intergovernmental	414,940	383,610	41,948	1,957,125
Licenses and permits	100	-	-	1,040
Charges for service	233,890	-	12,050	-
Use of money and property	15,311	-	-	-
Miscellaneous	26,447	16,165	354	149,402
Total revenues	2,630,217	732,403	985,922	2,107,567
Expenditures:				
Operating:				
Public safety and legal services	891,226	-	90,967	-
Physical health and social services	700,739	-	33,000	-
Mental health	-	1,233,772	-	-
County environment and education	130,336	-	38,012	-
Roads and transportation	-	-	206,252	3,215,804
Government services to residents	257,148	-	2,800	-
Administration	819,113	-	71,964	-
Debt service	-	-	-	-
Capital projects	38,617	-	-	-
Total expenditures	2,837,179	1,233,772	442,995	3,215,804
Excess (deficiency) of revenues over (under) expenditures	(206,962)	(501,369)	542,927	(1,108,237)
Other financing sources (uses):				
Sale of capital assets	1,701	-	-	-
General obligation bonds issued	100,000	-	-	-
Interfund transfers in (note 3)	-	-	-	524,591
Interfund transfers out (note 3)	(34,497)	-	(490,094)	-
Total other financing sources (uses)	67,204	-	(490,094)	524,591
Net change in fund balances	(139,758)	(501,369)	52,833	(583,646)
Fund balances beginning of year	603,089	113,094	5,200	2,219,153
Fund balances end of year	\$ 463,331	\$ (388,275)	\$ 58,033	\$ 1,635,507

See notes to financial statements.

	<u>Nonmajor</u>	<u>Total</u>
\$	389,144	\$ 3,555,268
	-	37,603
	11,881	2,809,504
	-	1,140
	4,536	250,476
	10	15,321
	15,063	207,431
	<u>420,634</u>	<u>6,876,743</u>
	217,386	1,199,579
	-	733,739
	-	1,233,772
	5,128	173,476
	-	3,422,056
	9,033	268,981
	-	891,077
	253,385	253,385
	23,160	61,777
	<u>508,092</u>	<u>8,237,842</u>
	(87,458)	(1,361,099)
	-	1,701
	-	100,000
	217,473	742,064
	<u>(217,473)</u>	<u>(742,064)</u>
	-	101,701
	(87,458)	(1,259,398)
	<u>320,449</u>	<u>3,260,985</u>
\$	<u>232,991</u>	<u>\$ 2,001,587</u>

## LUCAS COUNTY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2012

Net change in fund balances - total governmental funds \$ (1,259,398)

Amounts reported for governmental activities in the Statement of Activities  
are different because:

Governmental funds report capital outlays as expenditures while  
governmental activities report depreciation expense to allocate those  
expenditures over the life of the assets. The amount of capital outlay  
expenditures and depreciation expense in the current year are as follows:

Expenditures for capital assets	\$ 836,484	
Depreciation expense	<u>(640,917)</u>	195,567

Because some revenues will not be collected for several months after the  
County's year end, they are not considered available revenues and are  
deferred in the governmental funds, as follows:

Property tax	(8,354)	
Other	<u>(19,685)</u>	(28,039)

Proceeds from issuing long-term liabilities provide current financial resources  
to governmental funds, but issuing debt increases long-term liabilities in the  
Statement of Net Assets and does not affect the Statement of Activities. (100,000)

Repayment of long-term liabilities is an expenditure in the governmental  
funds, but the repayment reduces long-term liabilities in the Statement of  
Net Assets. 185,202

Some expenses reported in the Statement of Activities do not require the use  
of current financial resources and, therefore, are not reported as  
expenditures in the governmental funds, as follows:

Compensated absences	9,025	
Net OPEB liability	(14,000)	
Interest on long-term debt	<u>3,272</u>	(1,703)

The Internal Service Fund is used by management to charge the costs of  
the partial self funding of the County's health insurance benefit plan to  
individual funds. The change in net assets of the Internal Service Fund is  
reported with governmental activities. 50,253

Change in net assets of governmental activities \$ (958,118)

See notes to financial statements.

LUCAS COUNTY  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
June 30, 2012

	Internal Service - Employee <u>Group Health</u>
Assets	
Cash and cash equivalents	\$ <u>251,070</u>
Liabilities	
None	<u>-</u>
Net Assets	
Unrestricted	\$ <u><u>251,070</u></u>
See notes to financial statements.	

## LUCAS COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
 PROPRIETARY FUND  
 Year Ended June 30, 2012

	<u>Internal Service - Employee Group Health</u>
Operating revenues:	
Charges to operating funds	\$ 399,754
Charges to employees and others	<u>49,656</u>
Total operating revenues	<u>449,410</u>
Operating expenses:	
Medical claims	49,194
Insurance premiums	344,382
Administrative fees	<u>5,581</u>
Total operating expenses	<u>399,157</u>
Operating income	50,253
Net assets beginning of year	<u>200,817</u>
Net assets end of year	<u>\$ 251,070</u>

See notes to financial statements.

LUCAS COUNTY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
Year Ended June 30, 2012

	<u>Internal Service - Employee Group Health</u>
Cash flows from operating activities:	
Cash received from operating fund reimbursements	\$ 399,754
Cash received from employees and others	58,407
Cash payments to suppliers for services	<u>(403,596)</u>
Net cash provided by operating activities	54,565
Cash and cash equivalents beginning of year	<u>196,505</u>
Cash and cash equivalents end of year	\$ <u><u>251,070</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 50,253
Adjustments to reconcile operating income to net cash provided by operating activities:	
Decrease in accounts receivable	8,751
(Decrease) in accounts payable	<u>(4,439)</u>
Net cash provided by operating activities	\$ <u><u>54,565</u></u>

See notes to financial statements.

LUCAS COUNTY  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUNDS  
June 30, 2012

## Assets

## Cash and pooled investments:

County Treasurer	\$ 645,823
Other County officials	32,707

## Receivables:

## Property tax:

Delinquent	50,551
Succeeding year	7,633,000

Accounts	8,089
----------	-------

Accrued interest	20
------------------	----

Due from other governments	6,901
----------------------------	-------

Total assets	\$ <u>8,377,091</u>
--------------	---------------------

## Liabilities

Accounts payable	\$ 4,906
------------------	----------

Due to other governments (note 6)	8,300,567
-----------------------------------	-----------

Trusts payable	54,658
----------------	--------

Compensated absences	16,960
----------------------	--------

Total liabilities	\$ <u>8,377,091</u>
-------------------	---------------------

See notes to financial statements.

LUCAS COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

Note 1. Summary of Significant Accounting Policies

Lucas County is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff, and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance, and general administrative services.

The County's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Lucas County has included all funds, organizations, agencies, boards, commissions and authorities. The County has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the County. Lucas County has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The County participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Lucas County Assessor's Conference Board and Lucas County Joint E-911 Service Board. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

The County also participates in the following jointly governed organizations established pursuant to Chapter 28E of the Code of Iowa: Southeast Iowa Care Management, Chariton Valley Rural Economic Development, Inc., Ten Fifteen Regional Transit Agency, Southeast Iowa Drug Task Force, Lucas County Law Enforcement Center, Lucas County Solid Waste Management Commission, South Central Iowa Solid Waste Agency, and ADLM Counties Environmental Public Health Agency.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the County and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues and other nonexchange transactions.

LUCAS COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

The Statement of Net Assets presents the County's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The County reports the following major governmental funds:

The General Fund is the general operating fund of the County. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Mental Health Fund is used to account for property tax and other revenues to be used to fund mental health, mental retardation, and developmental disabilities services.

The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the County outside of incorporated city areas.

The Secondary Roads Fund is used to account for the road use tax allocation from the State of Iowa, required transfers from the General and the Special Revenue, Rural Services Funds and other revenues to be used for secondary road construction and maintenance.

LUCAS COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Additionally, the County reports the following funds:

Proprietary Fund - An Internal Service Fund is used to account for the financing of goods or services purchased by one department of the County and provided to other departments or agencies on a cost reimbursement basis.

Fiduciary Funds - Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units and/or other funds. Agency Funds are custodial in nature, assets equal liabilities, and do not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term liabilities and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

LUCAS COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting (continued)

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the County's policy is to pay the expenditure from restricted fund balance and then from less-restrictive classifications – committed, assigned, and then unassigned fund balances.

The proprietary fund of the County applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's internal service fund are charges to customers for sales and services. Operating expenses for internal service funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The County maintains its financial records on the cash basis. The financial statements of the County are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust, which is valued at amortized cost, and non-negotiable certificates of deposit, which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the date of purchase, they have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

LUCAS COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2011.

Interest and Penalty on Property Tax Receivable – Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable but has not been collected.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method. Inventories consist of expendable supplies held for consumption. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets – Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g., roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the County), are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Intangibles	\$ 100,000
Infrastructure	65,000
Land, buildings and improvements	30,000
Equipment and vehicles	10,000

LUCAS COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Capital assets of the County are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	25-50
Infrastructure	4-50
Equipment and vehicles	3-20

Due to Other Governments – Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Trusts Payable – Trusts payable represents amounts due to others which are held by various County officials in fiduciary capacities until the underlying legal matters are resolved.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of the succeeding year property tax receivable, delinquent property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of the succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund Statement of Net Assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide, proprietary fund and fiduciary fund financial statements. A liability for these amounts is recorded in the governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2012. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Mental Health, Rural Services and Secondary Roads Funds.

LUCAS COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012, disbursements did not exceed the amounts budgeted in any County function. Disbursements in the road clearing and contributions and memberships departments exceeded the amounts appropriated.

Note 2. Cash and Pooled Investments

The County's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The County is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Supervisors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2012, the County had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$898,285 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit Risk – The investment in Iowa Public Agency Investment Trust is unrated.

LUCAS COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue: Secondary Roads	General	\$ 34,497
	Special Revenue: Rural Services	490,094
Capital Projects	Local Option Sales and Services Tax	<u>217,473</u>
		<u>\$ 742,064</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

Note 4. Contract Receivable – Secondary Roads

As of June 30, 2012, the County has a long-term interest-free contract receivable from the City of Russell for road paving reimbursements. A summary of the payment schedule is as follows:

<u>Year Ending June 30,</u>	<u>City of Russell</u>
2013	\$ 3,033
2014	<u>1,533</u>
	<u>\$ 4,566</u>

LUCAS COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

Note 5. Capital Assets

A summary of capital assets activity for the year ended June 30, 2012 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 859,093	\$ -	\$ -	\$ 859,093
Construction in progress	158,229	-	158,229	-
Total capital assets not being depreciated	<u>1,017,322</u>	<u>-</u>	<u>158,229</u>	<u>859,093</u>
Capital assets being depreciated:				
Buildings	676,414	1,945,760	-	2,622,174
Machinery and equipment	3,972,570	581,914	491,514	4,062,970
Infrastructure	8,713,797	-	-	8,713,797
Total capital assets being depreciated	<u>13,362,781</u>	<u>2,527,674</u>	<u>491,514</u>	<u>15,398,941</u>
Less accumulated depreciation for:				
Buildings	222,122	55,287	-	277,409
Machinery and equipment	2,363,334	329,973	491,514	2,201,793
Infrastructure	1,957,866	255,657	-	2,213,523
Total accumulated depreciation	<u>4,543,322</u>	<u>640,917</u>	<u>491,514</u>	<u>4,692,725</u>
Total capital assets being depreciated, net	<u>8,819,459</u>	<u>1,886,757</u>	<u>-</u>	<u>10,706,216</u>
Governmental activities capital assets, net	<u>\$ 9,836,781</u>	<u>\$ 1,886,757</u>	<u>\$ 158,229</u>	<u>\$ 11,565,309</u>

LUCAS COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

Note 5. Capital Assets (continued)

Depreciation expense was charged to the following functions:

Governmental activities:

Public safety and legal services	\$ 61,325
Mental health	4,100
County environment and education	8,909
Roads and transportation	543,011
Government services to residents	9,930
Administration	<u>13,642</u>
Total depreciation expense - governmental activities	<u>\$ 640,917</u>

Note 6. Due to Other Governments

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments is as follows:

Fund	Description	Amount
General	Services	\$ 75,092
Special Revenue:		
Mental Health		<u>516,326</u>
Total for governmental funds		<u>\$ 591,418</u>
Agency:		
County Assessor	Collections	\$ 299,029
Schools		4,360,964
Community Colleges		219,820
Corporations		1,822,874
County Hospital		1,024,588
Auto License and Use Tax		193,134
All Other		<u>380,158</u>
Total for agency funds		<u>\$ 8,300,567</u>

LUCAS COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

Note 7. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2012 is as follows:

	General Obligation County Building Equipment Notes	General Obligation Corporate Purpose Bond	Bank Loan	Compensated Absences	Net OPEB Liability	Total
Balance beginning of year	\$ 74,000	\$ -	\$ 1,370,022	\$ 178,524	\$ 26,000	\$ 1,648,546
Increases	-	100,000	-	169,499	14,000	283,499
Decreases	37,000	-	148,202	178,524	-	363,726
Balance end of year	<u>\$ 37,000</u>	<u>\$ 100,000</u>	<u>\$ 1,221,820</u>	<u>\$ 169,499</u>	<u>\$ 40,000</u>	<u>\$ 1,568,319</u>
Due within one year	<u>\$ 37,000</u>	<u>\$ 49,260</u>	<u>\$ 155,083</u>	<u>\$ 169,499</u>	<u>\$ -</u>	<u>\$ 410,842</u>

General Obligation County Building Equipment Notes Payable

Details of the County's June 30, 2012, general obligation County building equipment note indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2013	4.80 %	<u>\$ 37,000</u>	<u>\$ 1,338</u>	<u>\$ 38,338</u>

General Obligation Corporate Purpose Bonds Payable

During the year ended June 30, 2012, the County issued \$100,000 in general obligation County purpose bonds. The bonds are payable through the year ended June 30, 2014 and have an interest rate of 3.0%. The proceeds of the bonds will be used for the purchase and installation of a computer system in the Lucas County Public Health Building, repairs on the County courthouse, and purchase of a law enforcement vehicle.

Details of the County's June 30, 2012, general obligation corporate purpose bond indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2013	3.0 %	\$ 49,260	\$ 2,086	\$ 51,346
2014	3.0	50,740	1,149	51,889
		<u>\$ 100,000</u>	<u>\$ 3,235</u>	<u>\$ 103,235</u>

# LUCAS COUNTY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2012

### Note 7. Long-Term Liabilities (continued)

#### Bank Loan Payable

In November 2009, the County entered into a capital lease purchase agreement with a private financing company for \$1,254,409 for a law enforcement center project. The project consists of the construction and lease purchase of a law enforcement center. In January 2010, the County entered into a bank loan for \$1,265,670 and had the proceeds paid directly to the financing company to essentially refund the capital lease purchase agreement. Interest of \$13,528 was also paid on the capital lease. The capital lease purchase agreement was then assigned to the bank and was used as collateral for the bank loan. The bank loan proceeds will be used by the financing company to pay the costs of construction for the new law enforcement center. The County borrowed an additional \$267,291 during the year ended June 30, 2011 for added expenses for the law enforcement center project. The bank loan includes interest at 4.75%.

Details of the County's June 30, 2012 bank loan indebtedness are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 155,083	\$ 58,196	\$ 213,279
2014	162,609	50,670	213,279
2015	170,332	42,947	213,279
2016	178,423	34,856	213,279
2017	186,826	26,453	213,279
2018	195,773	17,506	213,279
2019	172,774	8,206	180,980
	<u>\$ 1,221,820</u>	<u>\$ 238,834</u>	<u>\$ 1,460,654</u>

### Note 8. Other Postemployment Benefits (OPEB)

**Plan Description** – The County operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 71 active and 3 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage, which is a partial self-funded medical plan, is provided through Wellmark and administered by Auxiant. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

**Funding Policy** – The contribution requirements of plan members are established and may be amended by the County. The County currently finances the retiree benefit plan on a pay-as-you-go basis.

**Annual OPEB Cost and Net OPEB Obligation** – The County's annual OPEB cost is calculated based on the annual required contribution (ARC) of the County, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

LUCAS COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

Note 8. Other Postemployment Benefits (OPEB) (continued)

The following table shows the components of the County's annual OPEB cost for the year ended June 30, 2012, the amount actually contributed to the plan and changes in the County's net OPEB obligation:

Annual required contribution	\$ 23,000
Interest on net OPEB obligation	1,000
Adjustment to annual required contribution	<u>(1,000)</u>
Annual OPEB cost	23,000
Contributions made	<u>(9,000)</u>
Increase in net OPEB obligation	14,000
Net OPEB obligation beginning of year	<u>26,000</u>
Net OPEB obligation end of year	<u><u>\$ 40,000</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

For the year ended June 30, 2012, the County contributed \$9,000 to the medical plan.

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2012 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	\$ 23,000	39.1%	\$ 40,000

**Funded Status and Funding Progress** – As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$179,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$179,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2,063,000 and the ratio of the UAAL to covered payroll was 8.7%. As of June 30, 2012, there were no trust fund assets.

**Actuarial Methods and Assumptions** – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

LUCAS COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

Note 8. Other Postemployment Benefits (OPEB) (continued)

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4% discount rate based on the County's funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Combined Mortality Table projected to 2010 using scale AA. Projected claim costs of the medical plan are \$592 per month for retirees age 55 to 59 and \$729 per month for retirees age 60 to 64. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 9. Urban Renewal Development Agreement

During the year ended June 30, 2012, the County entered into a tax increment financing agreement with a local company to enable local economic expansion. Starting in the year ending June 30, 2013, the County will rebate the incremental property taxes paid on the company's facilities expansion for a period of ten years up to a maximum total of \$1,468,800. The rebate payments will not be a general obligation of the County, but will be made solely from incremental property tax revenues generated by the company's project. The County is unable to prepare an amortization schedule for the development payments due to the fluctuations inherent in property valuations and tax collections. The County made no payments under this agreement for the year ended June 30, 2012.

Note 10. Pension and Retirement Benefits

The County contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the County is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$201,812, \$174,281 and \$164,783, respectively, equal to the required contributions for each year.

LUCAS COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

Note 11. Risk Management

Lucas County is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 12. Employee Health Insurance Plan

The Internal Service, Employee Group Health Fund was established to account for the partial self funding of the County's health insurance benefit plan. The plan started on January 1, 2010 and is funded by both employee and County contributions. The plan is administered through a service agreement with Auxiant, which is subject to automatic renewal provisions. The County assumes liability for the difference between the \$750 or \$1,500 (depending on the plan) employee deductible and the \$5,000 deductible on the policy purchased by the County for the health plan. This results in a maximum out-of-pocket liability to the County of \$8,500 for the \$750 deductible plan and \$7,000 for the \$1,500 deductible plan per employee.

Monthly payments of service fees and plan contributions to the Employee Group Health Fund are recorded as expenditures from the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Auxiant from the Employee Group Health Fund. The County's contribution to the fund for the year ended June 30, 2012 was \$399,754.

A reconciliation of changes in the aggregate liability for claims for the current year is as follows:

Unpaid claims at July 1, 2011	\$ 4,439
Incurred claims (including claims incurred but not reported at June 30, 2012)	49,194
Payments	<u>(53,633)</u>
Unpaid claims at June 30, 2012	\$ <u><u>-</u></u>

LUCAS COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

Note 13. Contingent Liability

Landfill Closure Assurance Guaranty

The County participates in an agreement with the South Central Iowa Solid Waste Agency, a political subdivision created under Chapter 28E of the Code of Iowa. The purpose of the Agency is to provide economic disposal of solid waste produced or generated within the member counties and municipalities.

State and federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The closure and post-closure costs to the Agency have been estimated at \$2,112,643. The Agency has begun to accumulate resources to fund these closure costs, and as of June 30, 2012, has \$2,242,716 restricted for this purpose. The Agency is required to accumulate the full amount of funds required for closure and post-closure during the life of the landfill. However, it must have additional mechanisms in place at all times during the life of the landfill to equal 100 percent of the current cost estimates. No financial assurance guaranty was required from the County for the fiscal year ended June 30, 2012.

## Required Supplementary Information

# LUCAS COUNTY

## Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds Required Supplementary Information Year Ended June 30, 2012

	Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
<b>RECEIPTS:</b>				
Property and other County tax	\$ 3,556,022	\$ 3,449,831	\$ 3,663,074	\$ (107,052)
Interest and penalty on property tax	37,603	9,100	9,100	28,503
Intergovernmental	2,821,419	3,253,806	3,253,806	(432,387)
Licenses and permits	1,040	450	450	590
Charges for service	249,420	214,865	214,865	34,555
Use of money and property	15,900	37,150	37,150	(21,250)
Miscellaneous	209,341	431,900	21,900	187,441
Total receipts	<u>6,890,745</u>	<u>7,397,102</u>	<u>7,200,345</u>	<u>(309,600)</u>
<b>DISBURSEMENTS:</b>				
Public safety and legal services	1,203,358	1,271,609	1,524,609	321,251
Physical health and social services	724,429	704,006	802,766	78,337
Mental health	867,381	1,009,967	1,009,967	142,586
County environment and education	174,954	202,566	211,991	37,037
Roads and transportation	3,439,489	3,039,570	3,613,570	174,081
Government services to residents	266,106	297,582	304,732	38,626
Administration	888,527	970,857	1,016,157	127,630
Debt service	253,385	42,500	255,779	2,394
Capital projects	61,777	893,000	889,721	827,944
Total disbursements	<u>7,879,406</u>	<u>8,431,657</u>	<u>9,629,292</u>	<u>1,749,886</u>
Excess (deficiency) of receipts over (under) disbursements	(988,661)	(1,034,555)	(2,428,947)	1,440,286
Other financing sources, net	101,701	500	100,500	1,201
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(886,960)	(1,034,055)	(2,328,447)	1,441,487
Balance beginning of year	<u>3,231,293</u>	<u>1,563,652</u>	<u>3,775,196</u>	<u>(543,903)</u>
Balance end of year	<u>\$ 2,344,333</u>	<u>\$ 529,597</u>	<u>\$ 1,446,749</u>	<u>\$ 897,584</u>

See accompanying independent auditor's report.

# LUCAS COUNTY

## Budgetary Comparison Schedule – Budget to GAAP Reconciliation Required Supplementary Information Year Ended June 30, 2012

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 6,890,745	\$ (14,002)	\$ 6,876,743
Expenditures	7,879,406	358,436	8,237,842
Net	(988,661)	(372,438)	(1,361,099)
Other financing sources, net	101,701	-	101,701
Beginning fund balances	3,231,293	29,692	3,260,985
Ending fund balances	<u>\$ 2,344,333</u>	<u>\$ (342,746)</u>	<u>\$ 2,001,587</u>

See accompanying independent auditor's report.

## LUCAS COUNTY

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2012

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds except blended component units, internal service funds, and agency funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon ten major classes of expenditures known as functions, not by fund. These ten functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, government services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, two budget amendments increased budgeted disbursements by \$1,197,635. These budget amendments are reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board, and for the E-911 System by the Joint E-911 Service Board.

During the year ended June 30, 2012, disbursements did not exceed the amounts budgeted in any County function. Disbursements in the road clearing and contributions and memberships departments exceeded the amounts appropriated.

LUCAS COUNTY

SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN

(In Thousands)

Required Supplementary Information

Year Ended June 30, 2012

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability (AAL) ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a Percentage of Covered Payroll ( (b-a)/c )
2010	July 1, 2009	\$ -	\$ 179	\$ 179	0.0%	\$ 2,036	8.8%
2011	July 1, 2009	-	179	179	0.0%	2,022	8.9%
2012	July 1, 2009	-	179	179	0.0%	2,063	8.7%

See note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

See accompanying independent auditor's report.

This page intentionally left blank

## Supplementary Information

LUCAS COUNTY  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2012

	Special Revenue			
	County Recorder's Records Management	Resource Enhancement and Protection	Local Option Sales and Services Tax	Debt Service
<b>Assets</b>				
Cash and pooled investments	\$ 9,636	\$ 41,874	\$ 85,060	\$ 4,971
Receivables:				
Property tax:				
Delinquent	-	-	-	215
Succeeding year	-	-	-	88,000
Accounts	158	165	-	-
Accrued interest	-	-	-	1
Due from other governments	-	-	56,452	-
Total assets	<u>\$ 9,794</u>	<u>\$ 42,039</u>	<u>\$ 141,512</u>	<u>\$ 93,187</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities:</b>				
Deferred revenue:				
Succeeding year property tax	\$ -	\$ -	\$ -	88,000
Other	-	-	-	215
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>88,215</u>
<b>Fund balances:</b>				
Restricted for:				
Conservation purposes	-	42,039	-	-
Debt service	-	-	-	4,972
Capital projects	-	-	-	-
Other purposes	9,794	-	141,512	-
Total fund balances	<u>9,794</u>	<u>42,039</u>	<u>141,512</u>	<u>4,972</u>
Total liabilities and fund balances	<u>\$ 9,794</u>	<u>\$ 42,039</u>	<u>\$ 141,512</u>	<u>\$ 93,187</u>

See accompanying independent auditor's report.

<u>Capital Projects</u>	<u>Total</u>
\$ 34,674	\$ 176,215
-	215
-	88,000
-	323
-	1
-	56,452
<u>\$ 34,674</u>	<u>\$ 321,206</u>

\$ -	\$ 88,000
-	215
-	88,215

-	42,039
-	4,972
34,674	34,674
-	151,306
<u>34,674</u>	<u>232,991</u>
<u>\$ 34,674</u>	<u>\$ 321,206</u>

LUCAS COUNTY

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
Year Ended June 30, 2012

	Special Revenue			
	County Recorder's Records Management	Resource Enhancement and Protection	Local Option Sales and Services Tax	Debt Service
Revenues:				
Property and other County tax	\$ -	\$ -	\$ 348,593	\$ 40,551
Intergovernmental	-	9,850	-	2,031
Charges for service	1,895	-	-	-
Use of money and property	2	6	-	1
Miscellaneous	-	15,063	-	-
Total revenues	1,897	24,919	348,593	42,583
Expenditures:				
Operating:				
Public safety and legal services	-	-	-	-
County environment and education	-	5,128	-	-
Government services to residents	9,033	-	-	-
Debt service	-	-	213,279	40,106
Capital projects	-	23,160	-	-
Total expenditures	9,033	28,288	213,279	40,106
Excess (deficiency) of revenues over (under) expenditures	(7,136)	(3,369)	135,314	2,477
Other financing sources (uses):				
Interfund transfers in	-	-	-	-
Interfund transfers out	-	-	(217,473)	-
Total other financing sources (uses)	-	-	(217,473)	-
Net change in fund balances	(7,136)	(3,369)	(82,159)	2,477
Fund balances beginning of year	16,930	45,408	223,671	2,495
Fund balances end of year	\$ 9,794	\$ 42,039	\$ 141,512	\$ 4,972

See accompanying independent auditor's report.

<u>Capital Projects</u>	<u>Total</u>
\$ -	\$ 389,144
-	11,881
2,641	4,536
1	10
-	15,063
<u>2,642</u>	<u>420,634</u>
217,386	217,386
-	5,128
-	9,033
-	253,385
-	23,160
<u>217,386</u>	<u>508,092</u>
(214,744)	(87,458)
217,473	217,473
-	(217,473)
<u>217,473</u>	<u>-</u>
2,729	(87,458)
<u>31,945</u>	<u>320,449</u>
<u>\$ 34,674</u>	<u>\$ 232,991</u>

LUCAS COUNTY  
COMBINING SCHEDULE OF FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUNDS  
June 30, 2012

	County Offices			Agricultural
	County Recorder	County Sheriff	Public Health	Extension Education
<b>ASSETS</b>				
Cash and pooled investments:				
County Treasurer	\$ -	\$ -	\$ -	1,357
Other County officials	7,076	15,822	9,809	-
Receivables:				
Property tax:				
Delinquent	-	-	-	356
Succeeding year	-	-	-	68,000
Accounts	-	-	-	-
Accrued interest	-	-	-	-
Due from other governments	-	-	-	-
Total assets	<u>\$ 7,076</u>	<u>\$ 15,822</u>	<u>\$ 9,809</u>	<u>\$ 69,713</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 4,186	\$ -	\$ -	-
Due to other governments	2,890	-	-	69,713
Trusts payable	-	15,822	9,809	-
Compensated absences	-	-	-	-
Total liabilities	<u>\$ 7,076</u>	<u>\$ 15,822</u>	<u>\$ 9,809</u>	<u>\$ 69,713</u>

<u>County Assessor</u>	<u>Schools</u>	<u>Community Colleges</u>	<u>Corporations</u>	<u>Townships</u>	<u>County Hospital</u>	<u>Brucellosis and Tuberculosis Eradication</u>
\$ 147,405	\$ 84,034	\$ 4,606	\$ 45,082	\$ 2,950	\$ 16,301	\$ 90
-	-	-	-	-	-	-
874	21,930	1,214	21,792	94	4,287	4
168,000	4,255,000	214,000	1,756,000	167,000	1,004,000	1,000
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 316,279</u>	<u>\$ 4,360,964</u>	<u>\$ 219,820</u>	<u>\$ 1,822,874</u>	<u>\$ 170,044</u>	<u>\$ 1,024,588</u>	<u>\$ 1,094</u>
\$ 290	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
299,029	4,360,964	219,820	1,822,874	170,044	1,024,588	1,094
-	-	-	-	-	-	-
16,960	-	-	-	-	-	-
<u>\$ 316,279</u>	<u>\$ 4,360,964</u>	<u>\$ 219,820</u>	<u>\$ 1,822,874</u>	<u>\$ 170,044</u>	<u>\$ 1,024,588</u>	<u>\$ 1,094</u>

LUCAS COUNTY  
COMBINING SCHEDULE OF FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUNDS  
June 30, 2012

	Auto License and Use Tax	Anatomical Gift, Public Awareness and Transportation	E-911	Emergency Management
<b>ASSETS</b>				
Cash and pooled investments:				
County Treasurer	\$ 193,134	\$ 46	\$ 119,713	\$ 1,265
Other County officials	-	-	-	-
Receivables:				
Property tax:				
Delinquent	-	-	-	-
Succeeding year	-	-	-	-
Accounts	-	-	7,931	-
Accrued interest	-	-	20	-
Due from other governments	-	-	6,901	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	\$ <u>193,134</u>	\$ <u>46</u>	\$ <u>134,565</u>	\$ <u>1,265</u>
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ -	\$ 430	\$ -
Due to other governments	193,134	46	134,135	1,265
Trusts payable	-	-	-	-
Compensated absences	-	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	\$ <u>193,134</u>	\$ <u>46</u>	\$ <u>134,565</u>	\$ <u>1,265</u>

See accompanying independent auditor's report.

<u>City Special Assessments</u>	<u>Advance Tax</u>	<u>County Recorder's Electronic Transaction Fee</u>	<u>Total</u>
\$ 682	\$ 29,027	\$ 131	\$ 645,823
-	-	-	32,707
-	-	-	50,551
-	-	-	7,633,000
-	-	158	8,089
-	-	-	20
-	-	-	6,901
<u>\$ 682</u>	<u>\$ 29,027</u>	<u>\$ 289</u>	<u>\$ 8,377,091</u>
\$ -	\$ -	\$ -	4,906
682	-	289	8,300,567
-	29,027	-	54,658
-	-	-	16,960
<u>\$ 682</u>	<u>\$ 29,027</u>	<u>\$ 289</u>	<u>\$ 8,377,091</u>

LUCAS COUNTY

COMBINING SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
 AGENCY FUNDS  
 Year Ended June 30, 2012

	County Offices			Agricultural
	County	County	Public	Extension
	Recorder	Sheriff	Health	Education
<b>ASSETS AND LIABILITIES</b>				
Balances beginning of year	\$ 8,679	\$ 21,347	\$ 5,888	\$ 68,478
Additions:				
Property and other County tax	-	-	-	68,134
E-911 surcharge	-	-	-	-
State tax credits	-	-	-	80
Payments in lieu of taxes	-	-	-	3,286
Office fees and collections	127,820	84,503	-	-
Auto license, use tax, drivers license and postage	-	-	-	-
Interest	-	-	-	-
Trusts	-	130,438	17,321	-
Assessments	-	-	-	-
Miscellaneous	-	-	-	-
Total additions	127,820	214,941	17,321	71,500
Deductions:				
Agency remittances:				
To other funds	56,309	82,108	-	-
To other governments	73,114	2,395	-	70,265
Trusts paid out	-	135,963	13,400	-
Total deductions	129,423	220,466	13,400	70,265
Balances end of year	\$ 7,076	\$ 15,822	\$ 9,809	\$ 69,713

<u>County Assessor</u>	<u>Schools</u>	<u>Community Colleges</u>	<u>Corporations</u>	<u>Townships</u>	<u>County Hospital</u>	<u>Brucellosis and Tuberculosis Eradication</u>
\$ <u>303,044</u>	\$ <u>4,285,920</u>	\$ <u>236,670</u>	\$ <u>1,805,566</u>	\$ <u>163,622</u>	\$ <u>829,191</u>	\$ <u>1,080</u>
167,418	4,229,351	211,955	1,734,750	166,837	999,680	824
-	-	-	-	-	-	-
8,065	203,354	11,160	97,245	7,492	39,462	41
196	4,913	274	-	400	958	1
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
6	-	-	-	-	-	-
<u>175,685</u>	<u>4,437,618</u>	<u>223,389</u>	<u>1,831,995</u>	<u>174,729</u>	<u>1,040,100</u>	<u>866</u>
-	-	-	-	-	-	-
162,450	4,362,574	240,239	1,814,687	168,307	844,703	852
-	-	-	-	-	-	-
<u>162,450</u>	<u>4,362,574</u>	<u>240,239</u>	<u>1,814,687</u>	<u>168,307</u>	<u>844,703</u>	<u>852</u>
\$ <u><u>316,279</u></u>	\$ <u><u>4,360,964</u></u>	\$ <u><u>219,820</u></u>	\$ <u><u>1,822,874</u></u>	\$ <u><u>170,044</u></u>	\$ <u><u>1,024,588</u></u>	\$ <u><u>1,094</u></u>

LUCAS COUNTY

COMBINING SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUNDS  
Year Ended June 30, 2012

	Auto License and Use Tax	Anatomical Gift, Public Awareness and Transportation	E-911	Emergency Management
<b>ASSETS AND LIABILITIES</b>				
Balances beginning of year	\$ 156,638	\$ 1	\$ 133,255	\$ 1,265
Additions:				
Property and other County tax	-	-	-	-
E-911 surcharge	-	-	63,202	-
State tax credits	-	-	-	-
Payments in lieu of taxes	-	-	-	-
Office fees and collections	-	-	-	-
Auto license, use tax, drivers license and postage	2,209,416	-	-	-
Interest	-	-	290	-
Trusts	-	-	-	-
Assessments	-	-	-	-
Miscellaneous	-	129	350	19,000
Total additions	2,209,416	129	63,842	19,000
Deductions:				
Agency remittances:				
To other funds	87,588	-	-	-
To other governments	2,085,332	84	62,532	19,000
Trusts paid out	-	-	-	-
Total deductions	2,172,920	84	62,532	19,000
Balances end of year	\$ 193,134	\$ 46	\$ 134,565	\$ 1,265

See accompanying independent auditor's report.

<u>City Special Assessments</u>	<u>Advance Tax</u>	<u>Tax Sale Redemption</u>	<u>County Recorder's Electronic Transaction Fee</u>	<u>Total</u>
\$ 870	\$ 12,410	\$ 69	\$ 770	\$ 8,034,763
-	-	-	-	7,578,949
-	-	-	-	63,202
-	-	-	-	366,899
-	-	-	-	10,028
-	-	-	1,895	214,218
-	-	-	-	2,209,416
-	-	-	-	290
-	31,386	144,371	-	323,516
3,447	-	-	-	3,447
-	-	-	-	19,485
3,447	31,386	144,371	1,895	10,789,450
-	-	-	-	226,005
3,635	-	-	2,376	9,912,545
-	14,769	144,440	-	308,572
3,635	14,769	144,440	2,376	10,447,122
\$ 682	\$ 29,027	\$ -	\$ 289	\$ 8,377,091

LUCAS COUNTY

SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS  
FOR THE LAST EIGHT YEARS

	Modified Accrual Basis Years Ended June 30,			
	2012	2011	2010	2009
<b>Revenues:</b>				
Property and other County tax	\$ 3,555,268	\$ 3,416,832	\$ 3,375,122	\$ 3,255,547
Interest and penalty on property tax	37,603	34,784	31,019	36,370
Intergovernmental	2,809,504	3,137,685	3,886,454	4,109,558
Licenses and permits	1,140	375	1,015	608
Charges for service	250,476	250,935	231,895	237,798
Use of money and property	15,321	23,515	41,242	70,810
Miscellaneous	207,431	134,196	521,903	238,354
<b>Total</b>	<b>\$ 6,876,743</b>	<b>\$ 6,998,322</b>	<b>\$ 8,088,650</b>	<b>\$ 7,949,045</b>
<b>Expenditures:</b>				
Operating:				
Public safety and legal services	\$ 1,199,579	\$ 1,362,960	\$ 1,239,487	\$ 1,045,814
Physical health and social services	733,739	589,938	716,084	623,021
Mental health	1,233,772	988,308	915,782	1,032,917
County environment and education	173,476	175,640	169,366	297,233
Roads and transportation	3,422,056	2,851,330	2,325,352	2,891,079
Government services to residents	268,981	251,295	240,098	265,769
Administration	891,077	905,033	951,727	857,430
Non-program	-	-	-	-
Debt service	253,385	41,899	47,900	100,914
Capital projects	61,777	49,616	1,399,444	740,509
<b>Total</b>	<b>\$ 8,237,842</b>	<b>\$ 7,216,019</b>	<b>\$ 8,005,240</b>	<b>\$ 7,854,686</b>

See accompanying independent auditor's report.

	2008	2007	2006	2005
\$	2,763,511	\$ 2,595,200	\$ 2,570,552	\$ 2,237,851
	31,048	30,623	32,950	29,974
	3,480,243	2,705,620	3,013,759	2,825,372
	1,120	330	570	530
	260,909	243,732	243,642	241,211
	135,694	174,241	148,062	87,911
	217,186	211,031	292,174	178,076
	<u>\$ 6,889,711</u>	<u>\$ 5,960,777</u>	<u>\$ 6,301,709</u>	<u>\$ 5,600,925</u>
\$	718,933	\$ 799,077	\$ 899,540	\$ 850,361
	542,992	485,966	468,710	475,374
	994,969	953,109	797,690	716,400
	179,324	172,466	191,722	205,009
	2,218,959	2,314,629	2,640,561	2,243,217
	228,184	225,430	296,268	207,029
	850,818	770,593	716,880	703,562
	-	173,148	-	-
	105,140	112,440	61,363	46,133
	860,288	231,211	945,452	597,525
	<u>\$ 6,699,607</u>	<u>\$ 6,238,069</u>	<u>\$ 7,018,186</u>	<u>\$ 6,044,610</u>

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Officials of Lucas County:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lucas County, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements listed in the table of contents and have issued our report thereon dated March 19, 2013. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of Lucas County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Lucas County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lucas County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lucas County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the County's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings as item I-C-12 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-B-12 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lucas County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted a material instance of non-compliance described as item I-A-12 in the accompanying Schedule of Findings and certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about Lucas County's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Lucas County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the County's responses, we did not audit Lucas County's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Lucas County and other parties to whom Lucas County may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Lucas County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Oskaloosa, Iowa  
March 19, 2013

LUCAS COUNTY  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2012

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

- I-A-12 Financial Condition – At June 30, 2012, the Special Revenue, Mental Health Fund had a deficit fund balance of \$388,275.

Recommendation – The County needs to explore alternatives to restore the fund to a sound financial condition.

Response – We will investigate solutions to eliminate the deficit. However, this may take some time due to state funding changes.

Conclusion – Response accepted.

INTERNAL CONTROL DEFICIENCIES:

I-B-12 Segregation of Duties

Comment – During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the County's financial statements. We noted that generally one or two individuals in the offices identified may have control over the following areas for which no compensating controls exist:

	<u>Applicable Offices</u>
(1) Incoming mail should be opened by an employee who is not authorized to make entries to the accounting records.	Ag Extension, Sheriff
(2) The collection, deposit preparation and reconciliation functions are not performed by an individual who does not record and account for cash receipts.	Ag Extension, Sheriff, Treasurer
(3) The person who signs checks is not independent of the person preparing the checks, approving disbursements and recording cash disbursements.	Sheriff

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, each official should review the control procedures of their office to obtain the maximum internal control possible under the circumstances. The official should utilize current personnel to provide additional control through review of financial transactions, reconciliations and reports. Such reviews should be performed by independent persons to the extent possible, and should be evidenced by the initials or signature of the reviewer and the date of the review.

LUCAS COUNTY  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2012

Part I: Findings Related to the Basic Financial Statements (continued):

INTERNAL CONTROL DEFICIENCIES (continued):

I-B-12 Segregation of Duties (continued)

Responses –

County Ag Extension – Our new fiscal policy addresses periodic checks in those areas where segregation of duties is not possible because of limited personnel.

County Sheriff - We are trying to segregate duties as much as possible. With limited personnel, this is very difficult.

County Treasurer – We are trying to segregate duties as much as possible. With limited personnel, this is very difficult. We have started alternating and rotating some duties as much as possible as well as having two people perform the bank reconciliation.

Conclusion – Responses accepted.

I-C-12 Financial Reporting – During the audit, we identified material amounts of payables not recorded in the County's financial statements. Adjustments were subsequently made by the County to properly include these amounts in the financial statements.

Recommendation – The County should implement procedures to ensure all payables are identified and included in the County's financial statements.

Response – We will review our current procedures to ensure the proper amounts are recorded in the financial statements in the future.

Conclusion – Response accepted.

LUCAS COUNTY  
SCHEDULE OF FINDINGS

Year Ended June 30, 2012

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-12 Certified Budget – Disbursements during the year ended June 30, 2012 did not exceed the amount budgeted in any County function. Disbursements in the road clearing and contributions and memberships departments exceeded the amounts appropriated.

Recommendation - Chapter 331.434(6) of the Code of Iowa authorizes the Board of Supervisors, by resolution, to increase or decrease appropriations of one office or department by increasing or decreasing the appropriation of another office or department as long as the function budget is not increased. Such increases or decreases should be made before disbursements are allowed to exceed the appropriation.

Response – We will amend the appropriations when required in the future.

Conclusion – Response accepted.

- II-B-12 Questionable Expenditures – No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- II-C-12 Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- II-D-12 Business Transactions – No business transactions between the County and County officials or employees were noted.
- II-E-12 Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of all bonds should be reviewed periodically to insure that the coverage remains adequate for current operations.
- II-F-12 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-G-12 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the County’s investment policy were noted.
- II-H-12 Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
- II-I-12 County Extension Office – The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an Extension Council separate and distinct from County operations and, consequently, is not included in Exhibits A or B.

Disbursements during the year ended June 30, 2012 for the County Extension Office did not exceed the amount budgeted.

LUCAS COUNTY  
SCHEDULE OF FINDINGS

Year Ended June 30, 2012

Part II: Other Findings Related to Required Statutory Reporting (continued):

- II-J-12     Donation to the Lucas County Conservation Board – During the year ended June 30, 2012, the Lucas County Conservation Board received various donations. The Conservation Board remitted \$13,243 of the donations to the South Central Iowa Community Foundation (Foundation) in the year ended June 30, 2012 to fund an endowment. The Conservation Board signed a Conservation Endowment Agreement with the Foundation. The agreement states, in part, “Lucas County Conservation Endowment (the Fund) shall be a component part of the Foundation. All money and property in the Fund shall be held as general assets of the Foundation.” and “All gifts, bequests, and devises to the Fund shall be irrevocable once accepted by the Foundation.” As of June 30, 2012, these funds were still deposited with the Foundation.

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to a private non-profit corporation. Article III, section 31 states, “No public money or property shall be appropriated for local or private purposes, unless such appropriation, compensation, or claim, be allowed by two thirds of the members elected to each branch of the General Assembly.” In addition, Chapter 350.4 of the Code of Iowa states, in part, “a County conservation board may accept in the name of the County gifts, bequests, contributions and appropriations of money and other personal property for conservation purposes.”

Chapter 331.552 of the Code of Iowa states, in part, that a County shall “keep a true account of all receipts and disbursements of the County.”

A letter of advice from the Iowa Attorney General regarding gifts to governmental entities and the propriety of giving proceeds from a gift to a private non-profit Foundation has been issued dated April 22, 2008. The letter of advice states, in part:

“...I do not believe that a board may simply donate funds received from private donors to a private non-profit organization to use and invest as the non-profit organization sees fit. Unless the board retains the ability to oversee expenditures and to demand return of the funds in the event that future trustees do not agree with that delegation of control over the funds, the transaction violates the public purpose and non-delegation principles discussed above. Further, even if safeguards are put in place to assure ongoing oversight and control, I believe that the funds continue to be ‘public funds,’ subject to the deposit and investment standards contained in Code sections 12B and 12C (of the Code of Iowa) and that the funds must be earmarked and spent for the purpose for which the gift was given. A 28E agreement may provide a vehicle to facilitate joint public and private influence over the use of gifts received by a governmental body, by incorporating ongoing public oversight and accountability to the joint undertaking.”

In addition, consistent with the Iowa Attorney General’s letter of advice, the proceeds and related income are public funds and must be accounted for, deposited and invested pursuant to Chapters 12B and 12C of the Code of Iowa and the County’s investment policy.

Also, the agreement with the Foundation does not require the Foundation to notify the County in writing of the existence of material weaknesses in internal control or regulatory orders or sanctions regarding the type of services being provided under the agreement.

In addition, the original donation and endowment payment were recorded in the Special Revenue, Resource Enhancement and Protection (REAP) Fund. The endowment payment to the Foundation does not appear to be an allowable expenditure from the REAP Fund in accordance with Chapter 455A.19(b)(4) of the Code of Iowa.

LUCAS COUNTY  
SCHEDULE OF FINDINGS

Year Ended June 30, 2012

Part II: Other Findings Related to Required Statutory Reporting (continued):

II-J-12      Donation to the Lucas County Conservation Board (continued)

Recommendation – A 28E agreement, as described in the letter of advice, does not exist. We are not aware of any statutory authority for the conservation board and/or County to relinquish its fiduciary responsibility over the public funds to a separate non-profit organization.

The Lucas County Conservation Board, through its action to give these public funds to the Foundation during the year ended June 30, 2012, has put these public funds at risk since the Board and the Foundation have not invested and accounted for the proceeds from the donation, including all income derived from the investment of the donation, as required by Chapter 12B.10(5) of the Code of Iowa and Chapter 331.552 of the Code of Iowa.

The County should consult legal counsel and try to recover the endowment payment and all the income derived from the investment from the time it was remitted to the Foundation.

Until the County recovers all of the funds, it should seek to amend the agreement with the Foundation to require the Foundation to notify the County in writing of the existence of material weaknesses in internal control or regulatory orders or sanctions regarding the type of services being provided under the agreement.

Response – We will consult legal counsel about this matter and will work on getting the balance returned to the County.

Conclusion – Response accepted.